

Is Globalisation All it is Cracked Up to Be?

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1 Introduction

Despite unevenness in the process, it is incontrovertible that the pace of global integration has increased remarkably over the past two decades. Much of the world's population, particularly those with influence over the political process, has gained as openness has grown. However, there is compelling evidence that the benefits of globalisation have not been spread evenly, and that openness has been associated with growing unequalisation and, in many cases, an increase in the incidence of poverty. These adverse developments express themselves both within and between countries.

The correlation between growing openness and increasing inequality and poverty does not in itself mean that these phenomena are causally related. However, I will argue in this article that there are indeed reasons why the increasing globalisation of factor and financial markets leads to growing inequality and poverty, both in developing and industrialised countries. The entry of China into world markets in the 1980s exacerbated trends that were already in evidence during the process of post-war trade liberalisation. As China increases its participation in the global economy, and as India and other low-wage developing economies follow the same path, it is likely that there will be a further squeeze on incomes, not just of the unskilled, but also increasingly of semi-skilled and skilled labour.

I discussed many of the issues covered in this article with Gordon (usually in that hotbed of intellectual exchange, the Bristol pub). Gordon was acutely concerned with the association between advancing globalisation and the rapid advance of inequality, and its harmful impact on working people. The title of this article is one which I can visualise him tossing off. I believe, too, that the following discussion accurately reflects what was emerging in our discussion.

¹ This is a shortened version of the paper presented to the Gordon White Memorial Conference, 30 April 1999; the longer version refers in more depth to cited works and provides more data. Sarah Cook greatly aided my understanding of the Chinese labour market, was largely responsible for the section on the level and growth of unemployment and underemployment in China and made helpful comments on an earlier draft. I am indebted to many of my colleagues for their assistance and for comments on an earlier draft. Kenneth Fung, Glenis Morrison and Howard White assisted me with data. However, all errors of interpretation are mine alone.

Table 1: Ratio of country groups' share of global GDP to share of global population

	1970	1980	1985	1990	1995	1996
High-income countries	3.65	3.92	4.26	4.77	5.03	4.98
Middle-income countries		0.80	0.70	0.56	0.51	0.55
Low-income countries	0.17	0.12	0.12	0.08	0.09	0.10
Low-income excl. China and India			0.12	0.08	0.06	0.07
Latin America & Caribbean	0.78	0.82	0.79	0.66	0.69	
Sub-Saharan Africa	0.27	0.29	0.17	0.14	0.10	0.10
East Asia & Pacific	0.26	0.22	0.20	0.17	0.27	
China	0.15	0.09	0.11	0.08	0.12	0.14
India	0.14	0.10	0.11	0.09	0.07	0.08

Source: Calculated from World Bank, World Development Indicators, 1997

2 For Whom is Globalisation Not All it is Cracked Up to Be?

One measure of globalisation is the ratio of trade to GDP. With the exception of Sub-Saharan Africa (SSA) and Latin America and the Caribbean during the 1980s, globalisation has grown at an astonishing rate since 1980. Remarkably, this rate of growth has been more rapid for poorer countries, as well as for the two most populated economies, China and India (Kaplinsky 1999).

What has happened to living standards during this period of globalisation (here we will focus on earnings, rather than non-financial indicators of poverty and living standards)? There are two main approaches to the measurement of poverty: that which focuses on absolute living standards and that which considers relative living standards. With respect to absolute standards of living, between 1987 and 1993 – the only years for which data is available, but a period of growing global integration – the number of people living below the poverty line (defined in terms of the domestic purchasing power of \$1 per day at 1985 prices) was unchanged (World Bank 1996). However, even this picture is optimistic, since with the crisis which beset the relatively successful East Asian region in the late 1990s, it is estimated that the total of those living below the poverty line will increase from 1.3 billion in 1993 to 1.6 billion in the year 2000 (World Bank 1996). The crisis of 1997–98 led to 89 million Indonesians being thrust into poverty – defined as only one meal a day – (*Economist*, 19 September 1998) and the

proportion of the Russian population living below subsistence levels exceeded 35 per cent in early 1999 (*Financial Times*, 23 March 1999). This is hardly a compelling case for the positive impact of globalisation on absolute living standards.

This prevalence of falling incomes is not confined to developing countries. Real wages in the Netherlands fell between 1979 and 1997 (Hartog 1999). In the USA, real wages were lower in the mid-1990s than they were in the late 1960s, and family incomes have only held up as a consequence of longer working hours and more working members of the family.

But what of the relationship of globalisation to relative living standards? Table 1 shows that, when we compare different country groups' share of global GDP to share of global population, it would appear that inter-country income distribution has worsened as the extent of global openness has increased. Indeed, the only group which appears to have gained relatively after 1970 was that of high-income countries; other regions maintained their share at best (East Asia and the Pacific and China) and the rest experienced a significant decline in this ratio.

With respect to relative intra-national income distribution, at least in Latin America, there is evidence of significant increases in inequality as countries opened up over the last two decades (Streeten 1998; Bhalla 1998). Notably this includes Chile, often thought to be the paradigmatic gainer from globalisation, where the gini-coefficient increased

² This decline in income levels is matched by declines in the social wage. The proportion of social expenditure in total government expenditure declined from 35 to 29

per cent between 1972 and 1986 in the developing world (World Bank data cited by Streeten, 1998).

from 0.46 in 1971 to 0.58 in 1989 (Rodrik 1999). In the industrially advanced countries (IACs), since the 1970s there has been a significant tendency towards greater inequality in the OECD economies, particularly in the Anglo-Saxon economies (Dunford 1994). In developing countries, income distribution too has tended to become more unequal (Streeter 1998). Inequality between skilled and unskilled wage earners has also tended to increase in the IACs (Wood 1994 and 1998) and in Latin America over the past decade (Wood 1997).

3 Why did Globalisation Not Deliver The Goods?

The outcomes that were described in the previous section are not supposed to happen. Adam Smith essentially saw international specialisation as a progressive force (Smith 1776:457) and he cautioned against the too-rapid removal of these protective measures (*ibid*: 469). However, amongst the classical economists, it was Ricardo who is most clearly recognised as arguing the benefits of global specialisation, and hence of openness. Elaborating the principle of comparative advantage, Ricardo showed that specialisation in comparative advantage would work to the benefit of all. There were, however, provisos required for these benefits to be reaped. First, capital must not be internationally mobile; second, the trade between countries should be balanced; third, mechanisms should be in place to ensure a process of income transfer from those who gained to those who lost; and, finally and most importantly, all countries should experience full employment.

As we shall see below, it is the last two of these Ricardian assumptions that are most problematic. Before we explore these limiting assumptions more deeply, it is helpful first to briefly digress into the contribution made by Schumpeter in our understanding of the barriers to entry that underwrite the growth of sustainable incomes in a globalising world. Elaborating Schumpeter's ideas, it is helpful to distinguish the related concepts of commodities and rent (Kaplinsky 1998). A commodity can be defined as a product – and even a factor input – where barriers to entry are low. Consequently, when competition is intense the returns to the producers

of these products, or to those factors which operate in markets characterised by low barriers to entry, fall. By contrast, where barriers to entry are high, the incomes of producers of the products or factors that are not subject to intense competition will be protected.

The central contention of this article is that two events have conspired to reduce the barriers to entry in many sectors. First, during the recent decades of increasing globalisation, an increasing number of global producers began to command the capability to physically transform inputs into outputs for products destined for global markets; second, at the same time the barriers to international exchange have fallen. Consequently, we have witnessed an increasing supply of many commodities (using my terminology), not just primary products, but also increasingly manufactures and services such as tourism. The result has been a tendency towards systemic 'overproduction' (or its counterpart, underconsumption) (Brenner 1998). These dual processes have meant that the incomes of non-scarce factors have been, and will continue to be, diminished. The key abundant factor whose income has been under threat has been labour. My central contention is that labour is in excess supply globally and it is this which largely explains the fall in living standards (both relative and absolute) of much of the world's population. Operating in a world of unemployment and excess labour, the consequence has been the erosion of living standards all over the world. This is a process which I refer to as immiserising growth – that is, an expansion of economic activity which coincides with a decline in real incomes.

This process was foreseen in different ways by both Malthus and Marx. Malthus believed that real living standards would fall as a consequence of rising population. This could be reversed by either (what he strangely called the 'positive' check of) raised mortality, or as a consequence of the 'preventative' check of reduced fertility as couples married at a later age. In the absence of the 'preventative' check, standards of living would fall, mortality would rise and incomes would only be restored when the population balance had been restored.³ Marx observed a similar tendency. However, for him the outcome of falling living standards was not so

³ Keynes, by contrast, believed that as incomes rose, so fertility fell, and this would naturally check the growth of the reserve army of labour (Toye 1998).

Table 2: Share of country income groups (and China and India) in global population and global labour force

	Population			Labour force	
	1980	1995	2010 (est.)	1980	1995
Low income	53.7	56.1	58.0	52.2	54.9
Low income (excl. China and India)	16.0	18.5	21.6	14.3	16.0
Middle income	27.9	28.0	28.0	27.7	27.9
Lower middle income	20.4	20.3	20.1	20.3	20.2
Upper middle income	7.5	7.7	7.9	7.4	7.6
High income	18.4	15.9	14.1	20.2	17.2
China	22.1	21.2	19.7	22.6	23.0
India	13.1	14.3		20.8	20.2

Source: Calculated from World Bank, World Development Indicators, 1997

much a consequence of an autonomous rise in the population, but a result of growing capital-intensification in production which would lead to the expansion of 'the reserve army of labour' (Marx 1876:633).

There is a clear overlap between Marx's reserve army of labour and the theory of the labour surplus economy in post-1950s development economics. As Ranis points out, for development to proceed without falling welfare 'the volume of agricultural [LDC] workers freed up through productivity increase in the agricultural sector must not be too far out of line with the new employment opportunities created in the non-agricultural sector [the IACs]'. And, further 'The markets for the goods of the agricultural and non- agricultural sectors must clear without a major change in the inter-sectoral terms of trade' (Ranis 1987:106).

It is my contention that the growing gap between global labour demand and supply undermines Ranis's sanguine perspective on the reserve army of labour. The liberalisation of product markets in the global economy after the 1950s has been associated with a growing incidence of unemployment in the industrialised economies, especially in those (non Anglo-Saxon) economies where wages have not fallen.⁴ Rates of unemployment in the late 1990s are, in many cases, not dissimilar to those of the

1930s. A similar process of labour displacement is to be seen in developing countries. In Latin America and the Caribbean, labour displacement has led to growing urban unemployment, especially in the three largest economies, Argentina, Brazil and Mexico (Bhalla 1998); this was before the crisis which hit Brazil (and then Mercosur) in 1997. In addition, both the overall population and the active labour force in the developing world are a very large proportion of the global totals (Table 2). The reservoir of unemployed labour in developing countries thus has the proportionate capacity to easily drown the employed labour force in the industrially advanced economies.

It might be argued that, even if this reserve army of surplus labour in the developing world leads to the fall of wages in these labour-surplus developing economies, this will have little impact on wage incomes in the industrialised economies. This is because this reserve army does not have the skills to compete with rich country workers. It is here that the global economy emerging in the early twenty-first century appears to be entering a decisive new phase. Increasingly, workers in the developing world possess both the skills and the industrial experience to compete with rich country labour forces, even in the industrial sector, which was formerly the specialised preserve of the rich economies in global

⁴ There is a heated debate in the literature on whether unemployment in the IACs is the direct consequence of globalisation or not (Cline 1997; Wood 1998). Some observers argue that these growing levels of unemployment are due to autonomous technical change, rather than to the displacement of labour by imports of labour-intensive manufactures from LDCs. The counter-

argument is that technological change is to a considerable extent a response to the threat of imports from low-wage countries. For the purposes of my argument at this stage, it does not really matter which of these viewpoints is correct; rather, it is the existence of high levels of unemployment which is important.

trade. Partly as a consequence of this development, the barriers to entry in the production of goods for the global market have fallen, reflected in significant increases in over-capacity in many sectors (Brenner 1998), and a decline in the relative prices of globally traded goods. This has a direct bearing on the second caveat made by Ranis (see quote above). Ranis's sanguine view, as we have seen, is that the products produced in the labour-surplus (developing) economies must not experience sustained falls in their terms of trade – 'the markets for the goods of the agricultural and non-agricultural sectors must clear without a major change in the inter-sectoral terms of trade'. However, the consequence of growing industrial capacity in the developing world has indeed led to just such a fall in the terms of trade. But this time, unlike earlier periods when declining terms of trade affected primary products (Singer 1950 and Prebisch 1950), it is being experienced in manufactured goods (Wood 1997).⁵

The new element, which I believe I bring to this story, is to argue that the declining barriers to entry and the growth of over-capacity is now no longer limited to unskilled work and primary products (Singer and Prebisch). They now apply increasingly to skilled work and industrial products and, in so doing, threaten to undermine the skills of a much larger (and considerably more vocal) labour force. And, here comes the specifically Gordon-twist in the argument. It is the entry of China (and, to a lesser extent, India) which has expanded the global labour force so significantly that there is no conceivable expectation of the tight labour markets which Ricardo so correctly saw as being a necessary condition for a positive outcome to the process of sustained international specialisation and the reaping of comparative advantage. Also, as we shall see below, this is an increasingly experienced and skilled reserve army of labour.

4 Why is China (and India) an Important Part of the Story?

It is not just because Gordon was a sinologist that our attention turns to recent developments in China. The issue which we will now explore is the non-marginal nature of China's recent entry into the global market. Consider, first, the size of China's

contribution to global exports in a growing number of product markets, particularly in the manufactured products sector. Since her entry into these global markets in the first half of the 1980s, China has come to account for a growing share of imports into each of the triad economies (Kaplinsky 1999). In each of these markets, China is no longer a marginal supplier, but plays a major role in determining overall product availability, and hence the prices realised for these products; its presence therefore also affects the terms of trade of all economies trading in these product categories. China's low production costs arise from, and are coupled with, growing industrial competence.

Next, consider the size of China's population and labour force (Table 2 above). Here, too, China (and India) has a non-marginal presence. In 1995, China alone accounted for just over one fifth of global population, and almost one quarter of the global labour force. Together with India these proportions rise respectively to over two thirds of the global total. Therefore, developments in these labour forces, when these economies are integrated into the global labour force, have the capacity to affect significantly global wage levels.

One of the most striking features of the Chinese labour market is its growing level of education and skilling (Table 3). By 1996, almost all primary school age children were enrolled in education; 93 per cent of primary school graduates entered secondary school (an increase from 68 per cent in 1985); almost half of junior secondary school graduates entered senior secondary school. By 1996, over 400 million people had completed primary education and, at the opposite end of the spectrum, there were more than 6 million university graduates. More than 3 million students entered technical schools, and a growing number have begun studying abroad. At the same time there has been a large growth in the number of teachers, especially in secondary and higher education. This has meant that pupil-teacher ratios – 23.7 in primary schools – are remarkably low. All of these investments in education and training are reflected in the growth of published material, for example the more than fivefold increase in books published between 1985 and 1996.

⁵ Wood's calculation of falling terms of trade in manufactured exports is corroborated by a recent study of the barter terms of trade in manufactures between

developing countries and the European Union, which estimates an annual rate of depreciation of 2.2 per cent between 1979 and 1994 (Maizels *et al.* 1998).

Table 3: Levels of education, 1985-96

	1985	1990	1995	1996
% of school age in education	96.0	97.8	98.5	98.8
% of primary school graduates entering junior secondary school	68.4	74.6	90.8	92.6
% of junior secondary school graduates entering senior secondary school	41.7	40.6	48.3	48.8
Numbers in technical schools	761,000	1,567,000	2,874,000	3,348,000
Number of students studying abroad	2,124	2,950	20,381	20,905
Numbers with:				
University education				6,140,000
Three years of college education				9,620,000
Completing specialised secondary school				17,280,000
Completing senior secondary school				72,600,000
Completing junior secondary school				263,000,000
Completing primary school				420,000,000
Number of full-time teachers				
Higher education	247,000	395,000	401,000	403,000
Secondary schools	3,171,000	3,492,000	3,883,000	4,040,000
Primary schools	5,499,000	5,582,000	5,664,000	5,736,000
Pupil teacher ratio				
Colleges and universities	5.0	5.2	7.2	7.5
Secondary schools	17.2	14.6	15.9	16.4
Primary schools	24.9	21.9	23.3	23.7
Number of books published	21,621	80,224	101,381	112,813

Source: *China Statistical Abstract*, 1997

In itself, none of this need lead to a decline in global wages if there is full employment in China (and India).⁶ However, even after a period of significant growth, reaching 14.2 per cent in 1992 and exceeding 8 per cent until 1996, China faces rapidly rising open unemployment. Three major sources are fuelling this growing unemployment problem. First, starting in the mid-1980s large numbers of rural workers have been migrating to urban areas in search of employment, with estimates that 4 million migrants per year will need to be absorbed annually in urban areas. Second, each year approximately 12 million school or college leavers join the urban labour force. Finally, contributing to the current upsurge and raising fears of social unrest are the large numbers of workers, previously disguised within the urban 'iron rice bowl' system of guaranteed employment, being

laid-off by bankrupt or restructuring state enterprises (Cook and Maurer-Fazio 1999).

Official urban unemployment statistics include only those formally registered and thus provide a partial picture of the numbers involved. In 1997 the official rate was 3.1 per cent or 5.7 million people, up from 2.5 per cent or 3.83 million in 1990 (State Statistical Bureau 1998). These figures exclude workers who are 'laid off' (*xiagang*) but still retain an attachment to their original 'work unit'. Estimates of laid-off workers in 1998 range from 8 to 11 million workers (Ministry of Labour, interviews), with projections that during the next few years approximately 3.5–4 million state-sector workers, and 5 million collective-enterprise workers will be laid off each year. However, other estimates for *xiagang* workers at the

⁶ This and the following two paragraphs were contributed by Sarah Cook.

end of 1997 are as high as 14.4 million, bringing the total number of urban unemployed to approximately 20 million out of a total of 147 million formal urban employees (State Statistical Bureau 1998). The Ministry of Labour estimates that open urban unemployment may rise to 7.4 per cent by 2000 without effective job creation, while more recent projections for 1999 suggest an unemployment rate of 9 per cent in 1999 (Summary of World Broadcasts, FE/3402 G/7, 5 December 1998). Significantly, the average education level of the officially registered unemployed is above the average level for the work-force as a whole. Fifty-two per cent of urban unemployed have junior middle school education, 34 per cent senior middle school and 4.1 per cent college education, compared with the average for all employees of 35 per cent primary school, 38 per cent junior middle school, 12.1 per cent senior middle school and 3.5 per cent college leavers (State Statistical Bureau 1998).

This growth in the incidence of skilled unemployed took place during periods of rapid economic and export growth. But as the millennium dawns, China faces a decline in both. Compared to the heady >10 per cent growth rates of the first half of the 1990s, the projected rates for post-2000 are in the range of 5.3–7.4 per cent (China Concept Consulting 1998). Export growth, too, has fallen sharply, with little improvement in 1998 after growing previously at more than 20 per cent per annum for much of the 1990s. Furthermore, China's projected accession to the WTO is likely to be associated with a reduction in tariffs and other import barriers, exposing much of its inefficient industry to international competition, and therefore forcing the further displacement of labour. The size of China's reserve army of labour can therefore be expected to grow significantly in the future.

5 Conclusions

What conclusions can be drawn from this? On the one hand, there are undoubted efficiency gains arising from international specialisation. In a competitive world, these efficiency gains will be reflected in

a reduction in product costs and an improvement in product availability and quality. Those consuming these internationally produced products will reap these efficiency gains.

There are two primary routes to consumption power. The first is employment. But, in the absence of full employment, a second source of income arises from the redistribution of consumption power from those who are able to maintain employment to those whose jobs are displaced in this process of international specialisation. Assuming that these two conditions are met, increasing openness has much to offer. (These are two of the important assumptions which underlay Ricardo's model of comparative advantage – see Section 3 above). Let us think of this as the 'blue globalisation scenario'.⁷

However, even if these two conditions are met, globalisation may not be a positive-sum game. This is because falling terms of trade may reduce the consumption power of incomes. We can characterise this world in which globalisation is not a positive-sum game as the 'red globalisation scenario'.

Let us consider each of the three factors underlying this red globalisation scenario. For reasons discussed in earlier sections, I believe that the spectre of global unemployment is likely to grow rather than to diminish – Malthusian (population growth), Marxian (capital intensification) and Hobbsian (overproduction/underconsumption) explanations underlie this systemic trend towards surplus labour.⁸ Second, with regard to the politics of redistribution, globalisation has led to wars of incentives by governments anxious to attract an increasing share of globally mobile investment. These incentives have increasingly eroded tax bases, and thus weakened the capacity of states to move resources from the gainers to the losers.⁹ The political capacity of governments to fund social expenditures and other forms of income transfer has been undermined by the conscious and systematic spread of 'Thatcherite' ideologies by global carriers of ideology such as the Murdoch empire (which Gordon, justifiably, hated).

⁷ The choice of colours reflects the broad political coalitions which are likely to group around these pro- and anti-globalisation options.

⁸ Writing in a similar period of globalisation in the late nineteenth century, both Lenin and Hobbs argued that capitalism had a systemic tendency towards

underconsumption, and that this was one of the major factors driving imperialism.

⁹ This was an issue which especially troubled Gordon, and the programme of work which he mapped out just prior to his death was precisely targeted at the provision of the social wage.

Finally, considering the terms of trade effect in which even those with incomes experience declining consumption power, we need to distinguish between three types of terms of trade. The first is the *barter terms of trade*. This refers to the rate of exchange between two sets of goods. If exports grow more rapidly than the barter terms of trade decrease, then the *income terms of trade* can grow despite falls in the barter terms of trade. In other words, rising export volumes mean that total import capacity (which, as Rodrik (1999) reminds us, is the ultimate objective of openness) may increase. This, as can be seen, is what has indeed happened for many parts of the developing world over the past decade, although for some regions (notably low-income countries excluding India and China) even the income terms of trade have fallen. The issue now, which the red scenario in part depends on, is whether the growth of global productive capacity and/or the rise of protection in the major markets (see below) will reduce the space for global trade growth. That is, if exports grow at less than the decline in the barter terms of trade, then import capacity falls.

However, even if the income terms of trade fall, not all the employed may suffer equally. Despite falling barter and income terms of trade, the terms of trade of particular sets of factors (for example, those working in the export sector) will improve – these are the *factoral terms of trade*. This has indeed been the case for many developing country workers employed in export-oriented activities (for example Export Promotion Zones). In China, for example, between 1978 and 1997, real urban wages more than doubled from Y615 to Y1,342.6 (real Y1978), and from \$74 to \$161.8 (at official exchange rates),¹⁰ reflecting in part China's growing success in global markets. In the Dominican Republic, real wages (in US\$) in the export processing zones fell less than real wages in other sectors as the currency was repeatedly devalued (Kaplinsky 1993). From the perspectives of individual groups, therefore, factoral terms of trade may increase (providing a powerful and vocal lobby for globalisation, reflecting an alliance between the managerial and capitalist classes and what used to be

called the 'labour aristocracy') even whilst aggregate living standards (the incomes terms of trade) might decrease, negatively affecting the living standards of less powerful, marginalised and rural groups.

If all of this is correct, the sustainability of globalisation depends on the ability of those who have gained from globalisation to sustain their political ascendancy over those who are losing. Is this political balance likely to endure? Here the key battles are likely to be fought in three parts of the global economy. The first is in the USA where the first salvos have been fought over the banana trade, a small battle that presages an extended battlefield for the presidential election campaign in 2000. Rapid growth in the US – in employment, in GDP and the stock market – has fostered the revival of economic activity in parts of East Asia. But it has been built on borrowing from the rest of the world, with the US trade gap widening from \$160 billion in 1997 to \$235 billion in 1998. It is a shaky edifice, not least because of the unsustainable growth of the NYSE. When stocks fall (as even the head of the US Federal Reserve Bank, Greenspan, is now predicting) and hence when personal consumption falls (as personal savings, now negative, rise in response to falling asset values) and unemployment begins to rise, the balance may easily sway in favour of more protection. In Europe, high rates of unemployment and the rise of proto-fascist and racist parties provide fertile ground for new forms of protectionism. And in China and other parts of the developing world that offer potential markets to global production, the social and political tensions that are surfacing are leading many to question the ability of the Chinese military and political establishment to maintain its current outward-oriented growth trajectory.¹¹

This red globalisation scenario is usually greeted with a 'don't cry wolf' response, or by those who argue that the benefits of globalisation are so great that nothing will be able to undermine them. But the same may have been said in the late nineteenth century.¹² Then, too, globalisation seemed to be associated with a closing of the gap in inter-country living standards. Yet, as Williamson shows, the consequent rising

¹⁰ These wages were computed by Kenneth Fung from various editions of the *China Statistical Yearbook* (CSY).

¹¹ There has been growing criticism of China's desire to enter the World Trade Organisation, including by the

powerful mayor of Jinan in Shandong, Xie Yutang (*Financial Times*, 7 July, 1999).

¹² In many respects, the degree of global integration before the First World War exceeded that of the late 1990s (Bairoch and Kozul-Wright 1996).

intra-national income inequality led to a less open world (Williamson 1998:69). At that time, the arena of disputation with regard to globalisation was the trade in unskilled labour (through migration); in this generation it is likely to be global flows of goods, services and, perhaps, even finance.

So, there are good reasons to question the political sustainability of continued openness. However, as Gordon frequently argued, we are not only academic observers; we are also responsible human beings. As Marx remarked, 'it is not enough to understand the world, it is also necessary to change it'. This being the case, what normative responses might we have to these developments, given our personal and institutional identification with the interests of the poor and disadvantaged? Here, there are a number of alternatives. One possibility is that we continue to pressurise for a political dispensation that will allow for the redistribution of some of the gains to those who lose from globalisation, both within countries and between countries. But the prospect of this 'blue route', I have suggested, looks increasingly bleak.¹³ A second alternative, the one in which we actively engage ourselves in at the IDS, is to assist the growth of competitive capabilities of poor producers and of poor countries. This will enable them either to improve their barter terms of trade (by climbing up the value-added chain) or to win greater global market share, hence allowing their rising income terms of trade to exceed the declining barter terms of trade. What troubles me about this route, is that we provide simultaneous help with upgrading capabilities in different countries, in each case only heightening the competition which these producers experience in global markets. The advice to 'upgrade' is one which classically faces the fallacy of composition challenge, that is, upgrading is a relative concept and only makes sense if all other rivals are static or upgrade less.

By a process of elimination, this leaves only one further route open – reducing the intensity of openness and redefining its boundaries. Based in Europe or North America, the position is clear. Reducing imports of goods from countries with low wages

may lower the consumption power of incomes (by increasing product prices and reducing quality), but may lead to higher levels of employment and thus spread consumption power more widely through the economy.¹⁴ Labour markets are probably sufficiently 'tight' in these economies to sustain full employment and reasonable levels of income. Reduced capital mobility will also undermine the need for governments to ratchet-up their incentives to investors, and hence make it more feasible to raise the tax. Notionally, it may also be possible to disrupt the inflow of 'liberalising ideologies' and hence also improve the political environment favouring redistributive policies.

But we are also global citizens, particularly those of us who, like Gordon, are part of the 'development community'. The impact of reduced openness on those economies that will be excluded from these markets is more complex. On the one hand are a group of countries – the low-income countries excluding China and India, the Middle East and North Africa – who have largely failed to gain from globalisation. Their problem is not so much one of excess population bidding down wages, but of a failure to upgrade their productivity to sustain or grow their shares of global markets. Although their elites with consumption power may have gained, the purchasing power of the mass of the population may have fallen, despite rising levels of economic activity. In their case, although declining openness may reduce the overall potential efficiency of factor use, it may in fact lead to a situation in which idle resources may be brought into use, and more of the population included in production, hence receiving incomes. It may well be, for example, that the masses of the population in sub-Saharan Africa may in fact gain from reduced openness and a greater degree of self-sufficiency.

But what impact will reduced openness have on those countries that have gained from increased openness but have vast pools of excess labour? Their populations will stand to lose much more from the erosion of openness, with globalisation leading to a significant levelling-down of incomes, even though

¹³ It is no coincidence that the funding of both aid budgets and development studies has declined. Dudley Seers predicted that this would happen if and when 'communism' fell. He believed that 'development' was the West's sop to poor countries to prevent them from taking the communist path (personal communication).

¹⁴ Of course this rise in employment will be lessened by the loss of export sales to economies who find it difficult to export in the new global environment.

these may be more equally distributed. Bearing in mind that, as we have seen above, China probably falls into both groups of countries, this is a worrying conclusion, and one which might have especially troubled Gordon with his fascination for China.

We are thus faced with two broad outcomes. On the one hand, in the absence of robust redistributive mechanisms (which globalisation tends to erode), sustained globalisation will in the long run lead to declining standards of living for all those producers who are not able to surround themselves with barriers to entry. As we have seen, with the development of productive capabilities and education in LDCs, this covers an increasing segment of the global population. They are likely to suffer either from high levels of unemployment or immiserising growth. Both consequences arise from the existence of a global reserve army of (skilled) labour. On the other hand, reduced openness will concentrate the reserve army of labour in regions where it is currently geographically located – that is, in poor

countries in general and probably in China and India (who will have reduced access to global markets) in particular. This latter group of countries thus face the spectre of immiserisation in a much shorter time-span than would have been the case had the reserve army of labour worked its way through to incomes at a global level in an open world. Short of Malthusian 'positive' checks on population size (for example, the AIDS crisis in SSA may tighten labour markets), the prospects are particularly bleak in these countries.

I do not find this Malthusian view a comfortable conclusion. Nor would have Gordon. But short of a renewal of the politics of redistribution and inclusion – the most desirable outcome – or the mass famines/wars/AIDS epidemics which Malthus referred to as 'positive checks' to the growth of the labour force, I reluctantly see no other outcome. The direction for individual and group action is thus clear. But how would Gordon have felt to find himself in a 'blue' globalisation camp?

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